Introduction to New Market Tax Credits

What Are New Markets Tax Credits?

New Markets Tax Credits (NMTCs) are federal financing tools designed to attract private investment into low-income and underserved neighborhoods. The program provides tax incentives to investors, which allows specialized organizations — called Community Development Entities (CDEs) — to offer flexible, below-market financing for community-serving projects that might otherwise be difficult to fund.

For many community development projects, New Markets Tax Credits can serve as a valuable tool for closing financing gaps that cannot be filled through conventional debt, grants, or equity alone. By providing access to flexible, below-market financing, NMTCs can help project leaders advance projects that deliver significant community benefits while improving overall project feasibility. Understanding how NMTC financing works early in the development process can help organizations assess whether the program is a viable component of their capital stack and identify potential financing partners.

New Markets Tax Credits are commonly used to support projects such as:

- Community facilities that offer critical services i.e. health centers, workforce centers, education, etc.
- Affordable housing or mixed-use development
- Small business expansion and job creation
- Manufacturing or industrial projects
- Food access and grocery stores
- Climate, infrastructure, and neighborhood revitalization projects

How does a New Markets Tax Credit Work?

NMTC transactions involve several key players:

- **Investor** (e.g., a bank): Provides capital in exchange for tax credits
- **Community Development Entity:** An intermediary (often a CDFI) that receives NMTC allocation authority and deploys funds
- **Project Sponsor / Borrower**: The community-based organization or developer implementing the capital project

The basic flow of a New Markets Tax Credit is:

1. The federal government allocates NMTC authority to Community Development Entities.
2. The CDE raises capital from an investor using that allocation.
3. Then the CDE invests the capital (via loans or equity) into a qualified project in a low-income community.
4. Finally, the investor receives tax credits over seven years.

As a result, NMTC will result in “subsidized financing” for the Project Sponsor/Borrower in the form of

- Lower interest rates,
- Flexible repayment terms, or
- A portion of the financing may not need to be repaid (often called “forgivable” or “soft” debt).

Key Considerations

Organizations exploring NMTC financing should be aware that NMTC transactions are legally and financially complex and often require:

- Specialized legal and financial advisors
- Coordination among multiple parties
- Longer timelines than conventional financing

When Should You Consider NMTCs?

NMTCs are most useful when a project:

- Serves a low-income community
- Has demonstrated community impact such as job creation, access to healthcare, education, workforce development opportunities, and services for underserved neighborhoods
- Typically, needs more than $5M in total project financing
- Has a financing gap
- Is in predevelopment (from 0-30% on Capital Project Stage Roadmap) or early development stage (from 30-60% on the Capital Project Stage Roadmap)
- Can combine multiple funding sources such as foundation grants, government funding, CDFI loans, etc.

Resource

The **NMTC Allocatees Database** is a key resource for organizations exploring New Markets Tax Credit financing opportunities. It provides information on Community Development Entities that have received NMTC allocation authority from the federal government and are actively deploying capital into eligible projects in low-income communities. The database helps project sponsors identify potential financing partners based on factors such as geography, investment priorities, and project types, making it an important first step in building relationships, understanding funding alignment, and initiating outreach for potential NMTC-supported projects.